

250 GUIDE TO INVESTMENT AND FINANCE

gold standard by nations where previously a silver currency alone had been employed..

" The Bulletin of the United States' Bureau of Labour Statistics," issued officially in 1915, forms an interesting volume upon the Index Numbers of Wholesale Prices in that Country and Foreign Lands. This I here utilise on various points already treated by me, together with a memorandum published by the *Economist* newspaper on the 26th August, 1911. I classify the observations in numerical sequence.

1. The construction of an Index Number comprises (1) the definition of the purpose for which the final results are to be employed; (2) the selection of the numbers and kinds of commodities to be included, in order that the articles may form an adequate representation of prices generally; (3) the decision whether these commodities shall all be treated alike (as of equal value in production of the standard), or whether a process of " weighting " shall be adopted according to their relative importance; (4) the collection of the actual prices of the accepted commodities, and, if a scheme of " weights " is to be introduced, the collection of the data which determine their proper significance; (5) the decision whether the average variations of prices shall be measured or the variations of a sum of actual prices; (6) if average variations are to be measured—as the more significant course for our purpose—the choice of the base upon which the relative prices shall be computed ; and (7) the form of average to be struck.

2. It is useful to remark distinctly the difference between " simple " and " weighted " Index Numbers. The Index Number is weighted when an attempt is made to ascertain

the relative- prominence of the several commodities employed (say, *e.g.*, the comparative amounts of consumption), and when a plan is pursued which thus enables each commodity to exercise an influence upon the final results proportionate to its stated importance. But when, each commodity is taken just as it occurs in the statistics, and is thus allowed the same chance of modifying the result as every other commodity, the Index Number is termed "simple."

3. On the question of the kind of average to be adopted